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Growth and Stability in the Middle East and North Africa

Economic Overview

The MENA region commands abundant human and natural resources, accounts for a large share of world petroleum production and exports, and enjoys on average a reasonable standard of living. Within this general characterization, countries vary substantially in resources, economic and geographical size, population, and standards of living. At the same time, intra-regional interaction is weak, being restricted principally to labor flows, with limited trade in goods and services.

MENA covers a surface of over 15 million square kilometers and contains some 6 percent of the world's *population*, about the same as the population of the European Union (EU). The three smallest countries (Bahrain, Djibouti, and Qatar) each have a population of about half a million inhabitants. By contrast, the two largest countries (Egypt and the Islamic Republic of Iran) comprise about 60 million inhabitants each. Together with Algeria, Morocco, and Sudan, these five most populated countries account for about 70 percent of the region's population. About half the population lives in cities.

Most MENA countries are experiencing rapid population growth and have high dependency ratios. The average annual rate of population increase during 1989-94 was about 3 percent, the same as that in sub-Saharan Africa. Underlying the population growth are fertility rates substantially higher than those in other economies with similar real per capita income. Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates have registered population growth rates exceeding 3.5 percent in recent years, while Bahrain, the Islamic Republic of Iran, Lebanon, and Tunisia have recorded rates below the 2 percent average of the developing countries.

The labor force has grown faster than total population in recent years. As more than 50 percent of some countries' population is under the age of 15, this growth will be relevant for years to come; moreover, female participation rates remain very low. Not surprisingly, *employment* issues are on the agenda of most countries in the region. Other than in the economies of the Cooperation Council of the Arab States of the Gulf (GCC), the rate of unemployment exceeds those of most other regions in the world. Urban unemployment is estimated at over 30 percent in the Republic of Yemen and over 50 percent in the Gaza Strip. Although countries of the GCC once imported labor, with the rapid population growth and slower economic growth, they now must absorb a growing number of their own nationals into the labor force.

Despite high unemployment in certain countries, traditional indicators of *human resource development* in the region are fairly satisfactory. Average life expectancy at birth is about 65 years--close to the world average--and the infant mortality rate is only marginally above the world average. Although the average illiteracy rate in the region is high, primary and secondary school enrollment as a percentage of school age population is above that of developing countries with comparable per capita income, as is the teacher-to-pupil ratio. Three qualifications should, however, be borne in mind. First, the illiteracy and educational indicators are significantly more unfavorable for women than for men. Second, MENA countries compare poorly to other countries when account is taken of spending on the social sectors, highlighting the impact of distorted labor markets, an inefficient educational delivery system, and neglect of female education. Third, when various human development indicators are combined (e.g., as in the UNDP human development index) the region's ranking among countries in the world is less favorable than that based on income criteria alone.

Although the region is plagued by harsh climates, limited groundwater and rainfall, and scarce arable land (for example, in Djibouti, less than 1 percent of the land is arable, while in Egypt the area under cultivation is below 3 percent of total land mass, notwithstanding the reclamation of desert land since the 1950s), it enjoys abundant *natural resources*. About two thirds of the world's known crude-oil reserves lie under the MENA region, with one quarter located in Saudi Arabia. Following the breakup of the Soviet Union, the Islamic Republic of Iran now has the world's largest proven reserves of natural gas, about 15 percent of the world's total. The region also possesses numerous non-fuel mineral and nonmineral resources. Algeria, Morocco, Tunisia, Jordan, and the Syrian Arab Republic account for about one third of the world's phosphate production, and Morocco alone has more than 30 percent of the world's phosphate rock and 40 percent of its phosphoric acid trade. The region's other natural resources include potash (the Islamic Republic of Iran, Israel, and Jordan), iron ore (the Islamic Republic of Iran and Mauritania), coal (the Islamic Republic of Iran), ammonia and urea (the Islamic Republic of Iran and Qatar), copper and gypsum (Mauritania), cotton (Egypt and Sudan), tobacco (the Syrian Arab Republic), and coffee (the Republic of Yemen). In addition, almost all MENA countries have coasts and fishing grounds.

Reflecting these various advantages, the MENA region constitutes a sizable *economic entity* and enjoys a reasonable standard of living by international standards. In 1994, the nominal GDP of the region amounted to $610 billion, equivalent to 2 1/2 percent of world GDP and some 12 percent of the GDP of developing countries. Saudi Arabia is the largest economy, accounting for one fifth of the region's total GDP. At about half the size of Saudi Arabia, the Islamic Republic of Iran and Israel are the next largest economies. The eight smallest economies (Bahrain, Djibouti, Jordan, Lebanon, Mauritania, Qatar, Somalia, and Sudan) together account for about 6 percent of the region's GDP.

Although the average per capita GDP in the region, about $2,000, is twice that of developing countries as a whole and places MENA between the average levels of Latin America and of the economies in transition, individual MENA countries differ greatly. The four highest per capita income countries (Israel, Kuwait, Qatar, and the United Arab Emirates) enjoy an average per capita GDP of around $15,000 compared with $250 for Somalia and Sudan, the poorest countries in the region.

MENA countries, especially the non-oil countries, have low *domestic savings rates*. The domestic savings-to-GDP ratio has averaged 19 percent in the region as a whole, but only 11 percent in the non-oil producing countries, compared with a ratio of about 25 percent in developing countries. Fortunately efforts have been made recently to lower public dissaving by reducing government budget deficits.

On the *external side*, MENA countries appear, on the face of it, very open. For example, the total trade-to-GDP ratio amounts to about 66 percent. MENA's exports and imports of goods account for 4 percent of world trade and 15 percent of trade of developing countries. The share of the MENA region in international trade of goods is twice that of sub-Saharan Africa, equal to that of Latin America and the economies in transition, but only about one fifth of the share of developing countries in Asia.

The region trades mainly with industrial economies (Chart 1). The countries of the EU are the most important trading partners, accounting recently for 30 percent of exports and 40 percent of imports of MENA countries. The United States accounts for about 12 percent of both the region's exports and imports, and Japan for 16 percent of exports and 8 percent of imports.

The region's oil trade heavily influences these indicators. Oil and oil-related products account for about three quarters of the region's *exports* and about 40 percent of world exports of these products (Chart 2). Phosphate, its derivatives, iron ore, and cotton are also important exports. Per capita exports in the MENA region amount on average to $650, twice that of the developing countries as a group. Countries in the region differ dramatically in per capita exports, ranging from $25 in Sudan to $11,000 in the United Arab Emirates. Openness ratios (trade as a percent of GDP) also vary, ranging from 28 percent for the Syrian Arab Republic to 200 percent for Bahrain.

The MENA region depends on *imports* of foodstuffs. Gross food imports of the region account for 6 percent of world food imports. All countries--except for Israel, Mauritania, and Morocco--are, on average, net food importers.

Intra-regional trade plays a limited role in integrating the MENA countries, accounting for only about 8 percent of both exports and imports of the region (compared to 60 percent in the EU) but the region experiences large *intra-regional labor* movements, which have been the main vehicle of the region's economic integration, triggering substantial financial flows in the form of workers' remittances and transmitting economic impulses across countries. (At the beginning of the 1990s, the foreign labor force, including labor from outside the region, accounted for about two thirds of the total labor force of the GCC countries.) Although an estimated 1.5 million workers returned home after the 1990-91 regional crisis triggered by Iraq's invasion of Kuwait and the number of Palestinians working in Israel has declined significantly, labor markets in the MENA region remain highly integrated relative to other regions of the world. Remittances have recently amounted to about one quarter of exports of goods and services of non-oil exporters in the region and have exceeded 50 percent in Egypt, Jordan, and the Republic of Yemen. In addition to their direct balance of payments impact, labor remittances account for much of private investment in certain countries in the region (including Jordan).

Reflecting employment conditions at home as well as special historical relations with other countries, many Arab workers, especially from North Africa, have also migrated outside the MENA region--mainly to Europe. Concurrently, the MENA region has received inflows of migrant workers from outside the region, especially south and east Asia. Asian nationals account for a growing share of the nonnational labor force in the GCC countries and in Israel. Israel has also absorbed in recent years a significant inflow of immigrants from the former Soviet Union.

The MENA region enjoys sizable *interest income inflows*, reflecting a high level of foreign assets, while current transfers with the rest of the world remain marginal. During 1989-94, such inflows averaged about $6 billion a year (with oil-producing countries receiving double that amount), while all other country groupings, including industrial countries, recorded negative flows. Meanwhile, excluding transfers in 1991 associated with the Gulf crisis, the region has maintained on average a zero balance flow on account of current transfers with the rest of the world.

Finally, in terms of *intra-regional capital flows,* two distinct groups exist in MENA: providers of significant foreign assistance--mainly the oil exporters, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates--and recipients. Foreign assistance from the MENA region has been extended mainly on concessional terms and is highly correlated with the donor's economic circumstances and thus with fluctuations in world-market prices of oil. Political considerations have also played an important role in this regard, but private capital flows have been relatively limited.

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